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C O N F I D E N T I A L SECTION 01 OF 03 ABU DHABI 003709

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TRREASURY FOR U/S ADAMS AND DAS SAEED

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SUBJECT: UAEG WELCOMES CONTINUED DIALOGUE ON INVESTMENT

REF: ABU DHABI 3685

Classified By: Ambassador Michele J. Sison for reasons 1.4 (b and d).

1.(C/NF) Summary: Assistant Secretary of State for Economic and Business Affairs Daniel Sullivan and Treasury Deputy Assistant Secretary for Middle East and Africa Ahmed Saeed on September 11 met with government banking and business officials in Abu Dhabi to discuss a broad range of issues focusing on foreign investment in the US. The UAE Central Bank Governor welcomed continued dialogue on investment, current accounts, and monetary issues, including the GCC's plan for a unified currency circa 2010. He believes the technical hurdles will be surmounted for a 2010 transition, but the political climate will determine if the timeline slips. The CEO of Mubadala Investments said the most important step the US can take is to continue and expand dialogue between companies and investors in the US and UAE. Abu Dhabi Investment Authority's (ADIA) Deputy Managing Director said the UAE remains committed to the FTA and ADIA is as willing to invest in the U.S. as it was before the Dubai Ports World transaction. End Summary.

2.(U) Assistant Secretary of State for Economic and Business Affairs Daniel Sullivan, Treasury Deputy Assistant Secretary for Middle East and Africa Ahmed Saeed, Ambassador, Treasury Economist Jonathan Rose, EconChief and Dubai PolEconoff (notetaker) on September 11 met with government banking and business officials in Abu Dhabi to discuss a broad range of issues focusing on investment in the US and regional economics.

Central Bank Welcomes Strategic Dialogue, Comments on Unified GCC Currency

3.(SBU) DAS Saeed met with UAE Central Bank Governor Sultan Nasser Al-Suwaidi, Deputy Governor Mohammed Ali Bin Zayed, Assistant Executive Director and Head of the Anti-Money Laundering and Suspicious Cases Unit (AMLSCU) Abdulrahim al-Awadi, Executive Director of Supervision and Examination Department Saeed al-Hamiz, International Director AMLSCU Ahmed al-Qemzi and Bank Examiner Ibrahim al-Hosani. DAS Saeed introduced three key issues the USG would like to engage the UAE on: investment climate, current account balances and exchange rate issues. DAS Saeed reassured Al-Suwaidi the US remains committed to a transparent and open climate for foreign investment, even after the Dubai Ports World (DPW) transaction. Al-Suwaidi expressed thanks for the President's strong support of the DPW transaction and welcomed a continued strategic dialogue.

4.(C) DAS Saeed explained USG thinking on its current account deficit and a three-pronged strategy for addressing it, including increased USG savings (reducing the deficit), growth in European markets and revaluing China's exchange rate. DAS Saeed asked Al-Suwaidi for his thoughts on the benefits of UAE exchange rate flexibility. Al-Suwaidi said the stability offered by pegging the dirham to the dollar has made long-term planning possible and is therefore quite valuable. Al Suwaidi noted that if the UAE were to drop its dollar peg, the options would be pegging to the Euro or floating. DAS Saeed noted that a flexible exchange rate would give the UAEG greater levers to manage its economy. Al-Suwaidi responded that inflation has not been a major problem in the UAE. He agreed there would be advantages on the export side, but pointed out tourism and imports -- which make up the bulk of the UAE economy not exports -- are top priorities, so this change would have little practical effect. Al-Suwaidi intimated the time is not right for the UAE to move to a flexible exchange rate and that it is not seriously considering moving to a Euro peg.

5.(C) Al-Suwaidi said 98 percent of the Central Bank's reserves remain dollar-denominated and will remain so. In response to a question from DAS Saeed, Al-Suwaidi said the UAE has not established a position on IMF quota reform and needs to coordinate with the Ministry of Economy which leads that issue.

6.(C/NF) Al-Suwaidi said technical issues for the GCC move to a single currency are on schedule for a circa 2010 launch, but many political issues remain that could postpone implementation significantly. He saw "three pillars" which remain to be decided to establish the common currency:

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flexible or fixed exchange rate (to be discussed at the December GCC Bank Governors meeting); currency printing and distribution, including who benefits from the related infrastructure; and the question of reserves put up front to guarantee the currency. Al-Suwaidi believes the most difficult issues are GCC states necessarily giving up some sovereign rights.

7.(C) Al-Suwaidi listed several issues that complicate actions by the UAEG, including the UAE's political structure and popular Emirati sentiment. He said recent press about Emirati students having visa problems in the US put pressure on the administration. Al-Suwaidi also stressed the importance of security cooperation -- if these Emiratis are being turned away from the US because of security concerns, the Central Bank should be told so that the UAEG can take action against these threats.

Mubadala CEO Encourages Greater Dialogue

8.(SBU) A/S Sullivan, DAS Saeed and Ambassador met with Mubadala CEO Khaldoon Al-Mubarak. Al-Mubarak also serves as Chairman of the Executive Affairs Authority -- an independent economic, social and political think tank of 15-20 people that provides policy advice for the Crown Prince of Abu Dhabi. Mubadala is completing a study on perceptions of the UAE in the US, in an attempt to understand where the country stands six months after DPW. Al-Mubarak believes Americans have largely forgotten about DPW, but negative sentiment overseas about the issue remains. A/S Sullivan stressed that the administration and many American legislators remain fully supportive of the UAE and continued Emirati investment in the US. A/S Sullivan and DAS Saeed emphasized the importance of foreign direct investment in the US job market, which can be a powerful force in elections. Al-Mubarak said the most important step the US can take is to continue and expand dialogue between companies and investors.

9.(C) Al-Mubarak spoke about the purchase of a French

company, SR Technics, to illustrate his concerns about US investments. He postponed closing the deal for three weeks so the company could divest its interest in a US-based aircraft maintenance and overhaul company. "Everyone" encouraged Mubadala to cancel the deal if the US company were part of it because of the political fallout risk. DAS Saeed reinforced commitment from high level US officials saying "We want you back." Al-Mubarak responded the UAE is as interested as ever in investing in the US and the UAE Ambassador to the United States has visited with more than 70 member of Congress in the last several months. A/S Sullivan told Al-Mubarak US businesses in the UAE continue to prosper. Al-Mubarak gave credit to the quality and experience of US companies.

ADIA on FTA and Investment Strategies

10.(C/NF) A/S Sullivan and DAS Saeed spoke with Abu Dhabi Investment Authority (ADIA) Department Managing Director Khalifa Al-Kindi and Senior Fund Manager Hashim Kudsi, about the FTA and ADIA's investment strategies. Al-Kindi clearly did not want to discuss the FTA, claiming that ADIA does not play a major role in FTA discussions. He believes labor unions are a difficult obstacle but the UAEG intends to complete the FTA. He stressed the positive movement UAEG has already made on new labor laws and practices, but at this time the UAEG is "not ready for the labor issue." (Comment: Given the major role that ADIA officials have played in the FTA negotiations, it is unclear why Al-Kindi downplayed their role. We understand that there are some factional divisions within ADIA. This meeting brought them into clear relief. End Comment.)

11.(C) Al-Kindi provided a breakdown of ADIA's investment strategy, without commenting on the size of its portfolio. He noted that about 45% of ADIA's inflow of cash was invested in equities (40% of that in US equities), 15% in global government bonds, 5% in corporate bonds, 3% in inflation indexed bonds (60% of that in US TIPS) Real estate, hedge funds (8%), and private equity (3%) make up smaller parts of the portfolio. In addition, Al-Kindi stated that ADIA is 11% in cash (or short term instruments such as 3 month t-bills), which is historically high. He noted that returns on cash like investments were good. (Comment: Al-Kindi's comments

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confirm what we have heard earlier from other ADIA officials, who provided an additional perspective. They noted that ADIA tends to keep its investments in companies under the various reporting thresholds. So much cash has been flowing into ADIA from the high oil revenues, it has had some difficulties meeting this goal and staying consistent with its asset allocation requirements.) Al-Kindi also said China only permits ADIA 200 million dollars maximum investment in public equities there. He believes this limit may be due to UAE-Taiwan relations. Al-Kindi said ADIA has some 800 managers across the globe, focused on large-cap investments. Due to the large amount of money ADIA handles, small- and mid-cap investments are problematic and therefore avoided. Additionally, ADIA eschews non-government and emerging market debt markets.

12.(SBU) DAS Saeed emphasized the USG desire for ADIA to continue investing in the US and offered to explain new legislation and questions related to the CFIUS process, or host ADIA officials in the US. Al-Kindi said ADIA is as willing to invest in the US as it was before DPW. Al-Kindi also complained bitterly about the complicated process for getting US visas and recent press about UAE students in the US.

13. (U) This cable has been cleared by A/S Sullivan and DAS Saeed.
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